



CITY OF WHITE CLOUD
Newaygo County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended June 30, 2005

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of White Cloud	County Newaygo
Audit Date June 30, 2005	Opinion Date October 7, 2005	Date Accountant Report Submitted to State: December 1, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686	City Bay City	State MI	Zip 48707
Accountant Signature Campbell Kusterer & Co., P.C.			

CITY OF WHITE CLOUD
Newaygo County, Michigan

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2-4
Basic Financial Statements:	
Government-wide Financial Statements:	
Government-wide Statement of Net Assets	5
Government-wide Statement of Activities	6
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	7
Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Assets	8
Statement of Revenues, Expenditures, and Changes in Fund Balances	9-10
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	11
Proprietary Funds:	
Statement of Net Assets	12
Statement of Revenues, Expenses and Changes in Net Assets	13
Statement of Cash Flows	14
Notes to Financial Statements	15-25
Required Supplemental Information:	
Budgetary Comparison Schedule – General Fund	26-27
Budgetary Comparison Schedule – Major Street Fund	28
Budgetary Comparison Schedule – Land Acquisition Fund	29
Other Supporting Information:	
General Fund Expenditures by Detailed Account	30-32
Combining Balance Sheet – All Special Revenue Funds	33

CITY OF WHITE CLOUD
Newaygo County, Michigan

TABLE OF CONTENTS

	<u>Page</u>
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – All Special Revenue Funds	34
Report of Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	35

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100
P.O. BOX 686
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
FAX (989) 894-5494

INDEPENDENT AUDITOR'S REPORT

October 7, 2005

To the City Council
City of White Cloud
Newaygo County, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of City of White Cloud, Newaygo County, Michigan as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of White Cloud's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and each major fund of the City of White Cloud, Newaygo County, Michigan as of June 30, 2005, and the respective changes in financial position and cash flows where applicable, of these activities and funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 7, 2005, on our consideration of the City of White Cloud's internal control over financial reporting and on tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the City's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

CITY OF WHITE CLOUD
Newaygo County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2005

This section of the City of White Cloud's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2005. Please read it in conjunction with the financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net Assets at June 30, 2005, totaled approximately \$3,205,762.76 for governmental activities and \$569,715.02 for business-type activities. Of these totals, approximately \$2,763,031.94 and \$358,934.96 respectively, represent capital assets net of depreciation and related debt. Overall, net assets decreased by approximately \$124,677.73 from the prior year.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the City and the notes to the financial statements.

The first two statements are City wide financial statements and provide both long and short-term information about our overall financial status. These statements present government activities and/or business-type activities.

The remaining statements are fund financial statements, which focus on individual parts of the City in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the entity as a whole using accounting methods used by private companies. The statement of net assets includes all of the entity's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

Most of the activities of the City are reported as governmental activities. These would include the General, Cemetery, Park, Major Street, Local Street, Improvement Revolving, Land Acquisition and the Local Development Funds. Some activities such as the Water Fund are treated as business activities where the revenues of the activity are designed to pay for the operations of the activity.

CITY OF WHITE CLOUD
Newaygo County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2005

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the City's funds, focusing on significant (major) funds not the City as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The City Council also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The City has the following types of funds:

Governmental Funds: Most of the City's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the City's government-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The City's governmental funds include: General, Major Street, Local Street, Cemetery, Park, Improvement Revolving, Land Acquisition and Local Development.

Proprietary Funds: These funds represent activities in the government, which are basically treated like private sector companies. These funds are designed to have revenues earned adequate to pay for the operations of the activity. These funds are presented on a full accrual method and will show no difference between the City's government-wide statements and fund statements presentation. The City's proprietary funds include: Water and Equipment.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets: The City's combined net assets decreased by \$124,677.73 during the year ended June 30, 2005, totaling \$3,775,477.78.

Governmental Activities: The net assets for governmental activities decreased by \$89,981.08.

Business-Type Activities: The net assets for business-type activities decreased by \$34,696.65.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

General Fund: This fund is used to record all activities of the City not required to be recorded in a separate fund. This would include parks, zoning, dam, building and grounds, legislative, administrative, elections, and public safety. The major source of revenue for the general fund is from the City tax base and the revenue sharing from the State of Michigan.

Major Streets: This fund is used to record revenues and expenses for major streets located within the City. The major source of revenue comes from the State of Michigan in the form of Act 51 funding. This fund also records contributions from other entities contributing to paving projects. The major expense for this fund is construction of new paving projects and maintenance and snow removal.

Local Streets: This fund is used to record revenues and expenses for local streets within the City. Local street revenue comes from the State of Michigan in the form of Act 51 funding. This fund also records contributions from property owners who have been special assessed for improvements. The major expense for this fund is construction of new paving projects and maintenance and snow removal.

Cemetery Fund: The major source of revenue is from the sale of cemetery plots and openings for burials. The expenses incurred are for maintenance.

CITY OF WHITE CLOUD
Newaygo County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2005

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (continued)

Park Fund: This fund is used to record revenues from the percentage of the activities of the campground. The expenses incurred are for maintenance and upgrades. This year expenses included the development of a master plan for the park and some electrical upgrades for several sites.

Water Fund: This fund is used to record revenues and expenses for the City water system. The revenues come from user charges and the expenses are incurred for operation and maintenance. The City reviewed the water charges and made only one minor change in hook-up fees due to the stability of the water fund.

Internal Service (Equipment Fund): This is used to record the operation of the fleet and major equipment. The primary source of revenue comes from equipment rental fees charged to the other funds of the City. The primary expenses are accrued from the operations and maintenance of equipment and vehicles.

Improvement Revolving Fund: This fund is used to record the major capital improvement projects.

Downtown Development Authority: This component unit is used to record the activities and projects of the DDA. Revenues are from the TIFA (Tax Increment Financing Agreement) from capture of increased tax revenues of certain properties from the City of White Cloud, Newaygo County and the White Cloud District Library.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Additions to City's governmental fund capital assets for this year totaled \$39,291.73 and the Water Fund totaled \$72,901.66.

Long-Term Debt:

Water System Bond Issue: The bond issue payments for this fiscal year totaled \$37,968.75 (\$19,500.00 principal and \$18,468.75 interest).

Loans Payable – MEDC: These loans had proceeds of \$140,000.00 and principal payments of \$4,041.01.

Note payable on a dump truck and two autos. These loans had proceeds of \$17,583.00 and principal payments of \$12,038.08.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The City's plans for the future include street and water system improvements to Wilcox Street from M-37 to Barton Street. In addition, an enhanced streetscape project from M-37 to North Street will be a part of this project. The City is committed to constructing new sidewalks, repairing existing sidewalks and continually working to improve the water system.

CONTACTING THE CITY'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the City's finances and to demonstrate the City's accountability for the revenues it receives. If you have any questions concerning this report please contact Robert Sullivan, City Manager, or Bob Baldwin, City Mayor, by calling 231-689-1194 during the hours of 8 am to 5 pm, Monday through Friday.

CITY OF WHITE CLOUD
Newaygo County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2005

	Governmental Activities	Business-Type Activities	Total	Component Unit
ASSETS:				
CURRENT ASSETS:				
Petty cash	25 00	-	25 00	-
Cash in bank	279 063 69	118 066 86	397 130 55	43 067 90
Investments	148 405 17	28 055 46	176 460 63	-
Accounts receivable	-	66 903 39	66 903 39	-
Due from State of Michigan	39 250 67	-	39 250 67	-
Inventory	-	3 407 63	3 407 63	-
Total Current Assets	<u>466 744 53</u>	<u>216 433 34</u>	<u>683 177 87</u>	<u>43 067 90</u>
NON-CURRENT ASSETS:				
Capital Assets	3 770 753 09	1 998 157 31	5 768 910 40	33 745 23
Less: Accumulated Depreciation	<u>(564 241 05)</u>	<u>(910 222 35)</u>	<u>(1 474 463 40)</u>	<u>(981 06)</u>
Total Non-current Assets	<u>3 206 512 04</u>	<u>1 087 934 96</u>	<u>4 294 447 00</u>	<u>32 764 17</u>
TOTAL ASSETS	<u>3 673 256 57</u>	<u>1 304 368 30</u>	<u>4 977 624 87</u>	<u>75 832 07</u>
LIABILITIES AND NET ASSETS:				
LIABILITIES:				
CURRENT LIABILITIES:				
Accrued compensated absences	<u>24 013 71</u>	<u>5 653 28</u>	<u>29 666 99</u>	<u>-</u>
Total Current Liabilities	<u>24 013 71</u>	<u>5 653 28</u>	<u>29 666 99</u>	<u>-</u>
NON-CURRENT LIABILITIES:				
Notes payable	26 407 15	-	26 407 15	-
Loans payable	417 072 95	-	417 072 95	-
Bonds payable	-	729 000 00	729 000 00	-
Total Non-current Liabilities	<u>443 480 10</u>	<u>729 000 00</u>	<u>1 172 480 10</u>	<u>-</u>
Total Liabilities	<u>467 493 81</u>	<u>734 653 28</u>	<u>1 202 147 09</u>	<u>-</u>
NET ASSETS:				
Invested in Capital Assets, Net of Related Debt	2 763 031 94	358 934 96	3 121 966 90	32 764 17
Restricted	-	34 131 01	34 131 01	-
Unrestricted	<u>442 730 82</u>	<u>176 649 05</u>	<u>619 379 87</u>	<u>43 067 90</u>
Total Net Assets	<u>3 205 762 76</u>	<u>569 715 02</u>	<u>3 775 477 78</u>	<u>75 832 07</u>
TOTAL LIABILITIES AND NET ASSETS	<u>3 673 256 57</u>	<u>1 304 368 30</u>	<u>4 977 624 87</u>	<u>75 832 07</u>

The accompanying notes are an integral part of these financial statements.

CITY OF WHITE CLOUD
Newaygo County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended June 30, 2005

		Program Revenue		Governmental Activities
				Net (Expense)
	Expenses	Charges for Services	Capital Grants/ Contributions	Revenue and Changes in Net Assets
FUNCTIONS/PROGRAMS				
Governmental Activities:				
Legislative	12 497 71	-	-	(12 497 71)
General government	167 525 48	37 546 28	-	(129 979 20)
Public safety	194 806 84	13 710 47	-	(181 096 37)
Public works	338 537 70	5 936 00	6 420 00	(326 181 70)
Recreation and culture	35 469 35	3 223 88	-	(32 245 47)
Interest on long-term debt	4 220 48	-	-	(4 220 48)
Total Governmental Activities	753 057 56	60 416 63	6 420 00	(686 220 93)
Business-Type Activities:				
Water	231 977 36	195 200 67	-	-
Total Business-Type Activities	231 977 36	195 200 67	-	-
Total Primary Government	985 034 92	255 617 30	6 420 00	(686 220 93)
Component Unit	21 222 57	-	-	
General Revenues:				
Property taxes				279 029 37
State revenue sharing				289 396 34
Interest				10 253 92
Miscellaneous				17 560 22
Total General Revenues				596 239 85
Change in net assets				(89 981 08)
Net assets, beginning of year				3 295 743 84
Net Assets, End of Year				3 205 762 76

The accompanying notes are an integral part of these financial statements.

<u>Business-Type Activities</u>	<u>Total</u>	
<u>Net (Expense) Revenue and Changes in Net Assets</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>	<u>Component Unit</u>
-	(12 497 71)	-
-	(129 979 20)	-
-	(181 096 37)	-
-	(326 181 70)	-
-	(32 245 47)	-
-	(4 220 48)	-
-	(686 220 93)	-
(36 776 69)	(36 776 69)	-
(36 776 69)	(36 776 69)	-
(36 776 69)	(722 997 62)	-
		(21 222 57)
-	279 029 37	48 503 31
-	289 396 34	-
2 080 04	12 333 96	104 85
-	17 560 22	-
2 080 04	598 319 89	48 608 16
(34 696 65)	(124 677 73)	27 385 59
604 411 67	3 900 155 51	48 446 48
569 715 02	3 775 477 78	75 832 07

CITY OF WHITE CLOUD
Newaygo County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2005

	<u>General</u>	<u>Major Street</u>	<u>Land Acquisition</u>	<u>Other Funds</u>	<u>Total</u>
<u>Assets</u>					
Cash in bank	11 078 74	43 554 28	140 000 00	48 991 07	243 624 09
Investments	148 405 17	-	-	-	148 405 17
Petty cash	25 00	-	-	-	25 00
Due from State of Michigan	<u>20 030 00</u>	<u>13 633 23</u>	<u>-</u>	<u>5 587 44</u>	<u>39 250 67</u>
Total Assets	<u>179 538 91</u>	<u>57 187 51</u>	<u>140 000 00</u>	<u>54 578 51</u>	<u>431 304 93</u>
<u>Liabilities and Fund Equity</u>					
Liabilities:					
Accrued compensated absences	<u>17 229 76</u>	<u>4 522 63</u>	<u>-</u>	<u>2 261 32</u>	<u>24 013 71</u>
Total liabilities	<u>17 229 76</u>	<u>4 522 63</u>	<u>-</u>	<u>2 261 32</u>	<u>24 013 71</u>
Fund equity:					
Fund balances:					
Unreserved:					
Undesignated	<u>162 309 15</u>	<u>52 664 88</u>	<u>140 000 00</u>	<u>52 317 19</u>	<u>407 291 22</u>
Total fund equity	<u>162 309 15</u>	<u>52 664 88</u>	<u>140 000 00</u>	<u>52 317 19</u>	<u>407 291 22</u>
Total Liabilities and Fund Equity	<u>179 538 91</u>	<u>57 187 51</u>	<u>140 000 00</u>	<u>54 578 51</u>	<u>431 304 93</u>

The accompanying notes are an integral part of these financial statements.

CITY OF WHITE CLOUD
Newaygo County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

June 30, 2005

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	407 291 22
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	3 770 753 09
Accumulated depreciation	(564 241 05)
Long-term debt liabilities are not due and payable in the current period and therefore are not reported in the government funds:	
Notes payable	(26 407 15)
Loans payable	(417 072 95)
The internal service fund is used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net assets.	
Add net assets of governmental activities accounted for in the internal service fund net of capital assets and long-term debt which are included above	<u>35 439 60</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u><u>3 205 762 76</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF WHITE CLOUD
Newaygo County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year ended June 30, 2005

	<u>General</u>	<u>Major Street</u>	<u>Land Acquisition</u>	<u>Other Funds</u>	<u>Total</u>
Revenues:					
Property taxes	279 029 37	-	-	-	279 029 37
Licenses and permits	7 401 13	-	-	-	7 401 13
State revenue sharing	169 542 69	85 317 04	-	34 536 61	289 396 34
Federal grants	6 420 00	-	-	-	6 420 00
Charges for services	15 146 29	-	-	13 843 88	28 990 17
Fines and forfeits	7 064 33	-	-	-	7 064 33
Interest	8 768 69	678 49	-	806 74	10 253 92
Rents	11 025 00	-	-	-	11 025 00
Special assessments	-	-	-	5 936 00	5 936 00
Miscellaneous	14 656 74	2 903 48	-	-	17 560 22
Total revenues	<u>519 054 24</u>	<u>88 899 01</u>	<u>-</u>	<u>55 123 23</u>	<u>663 076 48</u>
Expenditures:					
Legislative:					
City Council and Mayor	12 497 71	-	-	-	12 497 71
General government:					
Elections	2 936 24	-	-	-	2 936 24
Assessor	9 429 87	-	-	-	9 429 87
Building and grounds	48 828 12	-	-	-	48 828 12
Manager and Clerk	40 343 69	-	-	-	40 343 69
Board of Review	810 00	-	-	-	810 00
Treasurer	19 341 16	-	-	-	19 341 16
Public relations	7 949 36	-	-	-	7 949 36
Cemetery	-	-	-	8 083 04	8 083 04
Unallocated	30 142 22	-	-	-	30 142 22
Public safety:					
Police protection	163 122 22	-	-	-	163 122 22
Fire protection	23 430 18	-	-	-	23 430 18
Zoning	10 733 79	-	-	-	10 733 79
Public works:					
Department of Public Works	105 773 32	-	-	-	105 773 32
Dam	121 87	-	-	-	121 87
Highways and streets	-	113 726 57	-	114 860 89	228 587 46
Airport	3 365 00	-	-	-	3 365 00
Recreation and culture:					
Parks and recreation	31 969 35	-	-	3 500 00	35 469 35
Debt service	-	-	-	8 261 49	8 261 49
Total expenditures	<u>510 794 10</u>	<u>113 726 57</u>	<u>-</u>	<u>134 705 42</u>	<u>759 226 09</u>

The accompanying notes are an integral part of these financial statements.

CITY OF WHITE CLOUD
Newaygo County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year ended June 30, 2005

	<u>General</u>	<u>Major Street</u>	<u>Land Acquisition</u>	<u>Other Funds</u>	<u>Total</u>
Excess (deficiency) of revenues over expenditures	<u>8 260 14</u>	<u>(24 827 56)</u>	<u>-</u>	<u>(79 582 19)</u>	<u>(96 149 61)</u>
Other financing sources (uses):					
Transfers to other funds	(79 570 00)	-	-	79 570 00	-
Loan proceeds	<u>-</u>	<u>-</u>	<u>140 000 00</u>	<u>-</u>	<u>140 000 00</u>
Total other financing sources (uses)	<u>(79 570 00)</u>	<u>-</u>	<u>140 000 00</u>	<u>79 570 00</u>	<u>140 000 00</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(71 309 86)	(24 827 56)	140 000 00	(12 19)	43 850 39
Fund balances, July 1	<u>233 619 01</u>	<u>77 492 44</u>	<u>-</u>	<u>52 329 38</u>	<u>363 440 83</u>
Fund Balances, June 30	<u>162 309 15</u>	<u>52 664 88</u>	<u>140 000 00</u>	<u>52 317 19</u>	<u>407 291 22</u>

The accompanying notes are an integral part of these financial statements.

CITY OF WHITE CLOUD
Newaygo County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2005

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 43 850 39

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(14 807 79)
Capital Outlay	-

Receipt of debt principal in the form of loan proceeds is a financing source in the governmental funds, the receipt does not have an effect in the statement of activities but does increase the debt balance in the statement of net assets

Principal receipts on long-term debt	(140 000 00)
--------------------------------------	--------------

Repayment of debt principal is an expenditure in the governmental funds, the repayment does not have an effect in the statement of activities but does reduce the debt balance in the statement of net assets.

Principal payments on long-term debt:	
Note payable	4 041 01
Accrued compensated absences	17 438 04

The internal service fund is used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.

Add: net operating income (loss) from governmental activities accounted for in the internal service fund.	(502 73)
---	----------

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	(89 981 08)
---	-------------

The accompanying notes are an integral part of these financial statements.

CITY OF WHITE CLOUD
Newaygo County, Michigan

STATEMENT OF NET ASSETS - ALL PROPRIETARY FUNDS
June 30, 2005

	<u>Proprietary Fund Types</u>	
	<u>Enterprise - Water</u>	<u>Internal Service</u>
<u>Assets</u>		
Cash in bank	118 066 86	35 439 60
Investments	28 055 46	-
Accounts receivable	66 903 39	-
Inventory	3 407 63	-
Construction in progress	118 648 23	-
Water system	1 879 509 08	330 977 84
Accumulated depreciation	<u>(910 222 35)</u>	<u>(257 725 47)</u>
Total Assets	<u>1 304 368 30</u>	<u>108 691 97</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accrued compensated absences	5 653 28	-
Notes payable	-	26 407 15
Bonds payable	<u>729 000 00</u>	-
Total liabilities	<u>734 653 28</u>	<u>26 407 15</u>
Net assets:		
Invested in capital assets, net of related debt	358 934 96	46 845 22
Restricted	34 131 01	-
Unrestricted	<u>176 649 05</u>	<u>35 439 60</u>
Total net assets	<u>569 715 02</u>	<u>82 284 82</u>
Total Liabilities and Net Assets	<u>1 304 368 30</u>	<u>108 691 97</u>

The accompanying notes are an integral part of these financial statements.

CITY OF WHITE CLOUD
Newaygo County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – ALL PROPRIETARY FUNDS
Year ended June 30, 2005

	Proprietary Fund Types	
	Enterprise - Water	Internal Service
Operating revenues:		
Service charges	190 483 69	43 400 00
Penalties	2 651 21	-
Miscellaneous	2 065 77	3 285 00
Total operating revenues	195 200 67	46 685 00
Less operating expenses:		
Wages	58 120 03	-
Fringe benefits	17 725 57	-
Operating supplies	11 784 80	8 745 97
Professional fees	30 377 89	-
Insurance	4 600 00	877 00
Utilities	16 917 97	-
Repairs and maintenance	11 572 49	5 090 54
Equipment rental	11 000 00	-
Miscellaneous	335 79	-
Total operating expenses before depreciation	162 434 54	14 713 51
Operating income before depreciation	32 766 13	31 971 49
Less: depreciation	(51 074 07)	(32 007 82)
Operating income (loss)	(18 307 94)	(36 33)
Non-operating income (expense):		
Interest earnings	2 080 04	417 39
Interest expense	(18 468 75)	(883 79)
Net non-operating income (expense)	(16 388 71)	(466 40)
Net income (loss)	(34 696 65)	(502 73)
Net assets, beginning of year	604 411 67	82 787 55
Net Assets, End of Year	569 715 02	82 284 82

The accompanying notes are an integral part of these financial statements.

CITY OF WHITE CLOUD
Newaygo County, Michigan

STATEMENT OF CASH FLOWS – ALL PROPRIETARY FUNDS
Year ended June 30, 2005

	<u>Proprietary Fund Types</u>	
	<u>Enterprise - Water</u>	<u>Internal Service</u>
Cash flows from operating activities:		
Cash received from customers	196 010 51	46 685 00
Cash payments to suppliers for goods and services	(104 314 51)	(14 713 51)
Cash payments to employees for services	(55 439 93)	-
Net cash provided (used) for operating activities	<u>36 256 07</u>	<u>31 971 49</u>
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	(72 901 66)	(39 291 73)
Loan proceeds	-	17 583 00
Payment of principal on long-term debt	(19 500 00)	(12 038 08)
Payment of interest on long-term debt	(18 468 75)	(883 79)
Net cash provided (used) for capital and related financing activities	<u>(110 870 41)</u>	<u>(34 630 60)</u>
Cash flows from investing activities:		
Interest income	2 080 04	417 39
Net cash provided (used) for investing activities	<u>2 080 04</u>	<u>417 39</u>
Net increase (decrease) in cash and cash equivalents	(72 534 30)	(2 241 72)
Cash and cash equivalents, July 1	<u>218 656 62</u>	<u>37 681 32</u>
Cash and Cash Equivalents, June 30	<u><u>146 122 32</u></u>	<u><u>35 439 60</u></u>
Reconciliation of operating income to net cash provided (used) for operating activities:		
Operating income (loss)	(18 307 94)	(36 33)
Depreciation	51 074 07	32 007 82
Increase (decrease) in assets and liabilities:		
Accounts receivable	809 84	-
Accrued compensated absences	<u>2 680 10</u>	<u>-</u>
Net Cash Provided (Used) for Operating Activities	<u><u>36 256 07</u></u>	<u><u>31 971 49</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF WHITE CLOUD
Newaygo County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the City of White Cloud, Newaygo County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the City contain all the funds and component units that are controlled by or dependent on the City's executive or legislative branches.

The reporting entity is the City of White Cloud. The City is governed by an elected City Council and Mayor. As required by generally accepted accounting principles, these financial statements present the City as the primary government. The component unit disclosed below is discretely presented in the City's reporting entity due to the significance of the City's operational and financial relationship's with the component unit.

Component Unit

The Downtown Development Authority is reported as a discretely presented component unit within the reporting entity of the City. It is reported in a separate column to emphasize that it is legally separate from the City. The members of the governing board of the component unit are appointed by the City. The component unit is fiscally dependent on the City.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental and business-type funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

CITY OF WHITE CLOUD
Newaygo County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Joint Ventures

The City and the Township of Sherman jointly form the White Cloud Sherman Utility Authority to provide sewer services for the two entities. The City has guaranteed 26.4% of the sewer system bonded debt. Total outstanding bonded debt at June 30, 2005, is \$742,500.00. The City's potential responsibility is \$196,020.00. This amount has not been recorded as a liability of the City.

The City and the Township's of Everett, Lincoln, Sherman and Wilcox jointly operate the White Cloud Area Fire Department to provide fire protection services for the five entities. For the fiscal year ended March 31, 2005, the City provided \$23,430.18 to the Fire District which represented 8.8% of its operating revenue. As of March 31, 2005, the long-term debt of the Fire District was \$0.

The joint ventures of the City are not considered a part of the reporting entity of the City. Separate financial statements of the joint ventures may be obtained directly from them.

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Proprietary Funds

Water Fund

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water enterprise fund are charges to customers for services. The enterprise fund also recognizes as operating revenues the tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CITY OF WHITE CLOUD
Newaygo County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Internal Service Fund

The Equipment Fund is used to record the financing of goods or services provided by the local unit to other departments and funds or to other governmental units on a cost reimbursements basis.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the City. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventory is recorded in the Water Fund at the lower of cost or market, with cost determined on a first-in, first-out (FIFO) basis. All purchases for materials are reflected in expenses when paid in other funds.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on August 31 with the final collection date of February 15 before they are added to the county tax rolls. The City 2004 tax roll millage rate was 18.0416 mills, and the taxable value was \$17,404,684.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the City as assets with an initial cost of more than \$1,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20-30 years
Furniture and equipment	3-10 years

CITY OF WHITE CLOUD
Newaygo County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Compensated Absences (Vacation and Sick Leave)

The estimated current portion of the liability for vacation and sick leave benefits attributable to the City's governmental funds is recorded as an expenditure and liability in the respective funds. The amounts attributable to proprietary funds are charged to expense and a corresponding liability in the applicable fund. Employees may accumulate up to 150 days of vacation and unused sick leave for which they are paid upon termination of employment.

Post-employment Benefits

The City provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the City Council for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the City Council.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the City Council.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the City Council during the fiscal year.

CITY OF WHITE CLOUD
Newaygo County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the City to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The City Council has designated four banks for the deposit of City funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The City's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>	
	<u>Primary Government</u>	<u>Component Unit</u>
Total Deposits	<u>397 130 55</u>	<u>43 067 90</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>	
	<u>Primary Government</u>	<u>Component Unit</u>
Insured (FDIC)	275 310 07	43 067 90
Uninsured and Uncollateralized	<u>123 975 28</u>	<u>-</u>
Total Deposits	<u>399 285 35</u>	<u>43 067 90</u>

The City's investments are categorized below to give an indication of the level of risk assumed by the City. Risk category 1 includes those investments that meet any one of the following criteria: insured, registered, or held by the City or its agent. Risk categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the City's name. Category 3 includes investments held by the counterparty or the counterparty's trust department (or agent) but not in the City's name.

The GASB Statement No. 3 risk disclosures for the City's investments are categorized as follows:

<u>Investment Type</u>	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>Carrying Amount</u>
Risk-Categorized: Operating Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

CITY OF WHITE CLOUD
Newaygo County, Michigan

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 3 – Deposits and Investments (continued)

	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>Carrying Amount</u>
Total Risk-Categorized Investments	<u>-</u>	<u>-</u>	<u>-</u>	-
Non-risk-Categorized: Financial Institution Pooled Funds				<u>176 460 63</u>
Total Investments – Primary Government				<u>176 460 63</u>

The financial institution pooled funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in the funds comply with the investment authority noted above.

Note 4 – Capital Assets

Capital asset activity of the City's Governmental activities for the current year was as follows:

	<u>Balance 7/1/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/05</u>
<u>Governmental Activities:</u>				
Land and improvements	3 010 000 00	-	-	3 010 000 00
Buildings and improvements	368 500 00	-	-	368 500 00
Equipment	<u>375 329 78</u>	<u>39 291 73</u>	<u>22 368 42</u>	<u>392 253 09</u>
Total	3 753 829 78	39 291 73	22 368 42	3 770 753 09
Accumulated Depreciation	<u>(539 793 86)</u>	<u>(46 815 61)</u>	<u>22 368 42</u>	<u>(564 241 05)</u>
Net Governmental Capital Assets	<u>3 214 035 92</u>	<u>(7 523 88)</u>	<u>-</u>	<u>3 206 512 04</u>
<u>Business-Type Activities:</u>				
Water System	1 925 255 65	72 901 66	-	1 998 157 31
Accumulated Depreciation	<u>(859 148 28)</u>	<u>(51 074 07)</u>	<u>-</u>	<u>(910 222 35)</u>
Net Business-Type Capital Assets	<u>1 066 107 37</u>	<u>21 827 59</u>	<u>-</u>	<u>1 087 934 96</u>
<u>Component Unit</u>				
Land	28 839 96	-	-	28 839 96
Equipment	<u>4 905 27</u>	<u>-</u>	<u>-</u>	<u>4 905 27</u>
Total	33 745 23	-	-	33 745 23
Accumulated Depreciation	<u>(490 53)</u>	<u>(490 53)</u>	<u>-</u>	<u>(981 06)</u>
Net Component Unit Capital Assets	<u>33 254 70</u>	<u>(490 53)</u>	<u>-</u>	<u>32 764 17</u>

CITY OF WHITE CLOUD
Newaygo County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 5 – Deferred Compensation Plan

The City of White Cloud offers all of its' employees a choice of three deferred compensation plans created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (a custodial account) as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of these Section 457 plans, and the assets may not be diverted to any other use. The administrators are agents of the City of White Cloud for the purposes of providing direction to the custodian of the custodial account for time to time for the investment of the funds held in account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the City of White Cloud's financial statements.

Note 6 – Pension Plan

Plan Description

The City has a defined benefit pension plan covering substantially all full-time employees. The plan is operated by the State of Michigan Municipal Employees Retirement System (MERS), which is a cost-sharing multiple-employer retirement system.

The pension plan provides pension, death and disability benefits. Benefits vest after 10 years of service. Normal retirement is based on one of the following requirements:

1. Age 60 and 10 or more years of credited service.
2. Age 55 and 20 or more years of credited service.
3. Age 55 and 15 or more years of credited service (reduced benefit).
4. Age 50 and 25 or more years of credited service.

The City's current year covered payroll and its total current year payroll for all employees amounted to \$185,938.13 and \$323,508.45 respectively.

Pension Benefit Obligation

The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2004. Significant actuarial assumptions used in determining the pension benefit obligation include (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases of 4.5% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit E-1 or E-2.

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$117,709
Terminated employees not yet receiving benefits	53,310
Current employees – Accumulated employee contributions including allocated investment income	0

CITY OF WHITE CLOUD
Newaygo County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 6 – Pension Plan (continued)

Plan Description

Pension Benefit Obligation

Employer financed	<u>284,690</u>
Total Actuarial Accrued Liability	455,709
Net Assets Available for Benefits, at Actuarial Value (Market Value is \$302,025)	<u>309,414</u>
Overfunded (Unfunded) Actuarial Accrual Liability	<u>(146,295)</u>

Contributions Required and Contributions Made

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The annual required contribution for the fiscal year beginning July 1, 2006, is \$27,048.00 with an amortization factor used of 0.053632.

Total employer contributions made during the fiscal year ended June 30, 2005, amounted to \$27,909.31.

Note 7 – Changes in Long-Term Debt

A summary of changes in long-term debt follows:

	<u>Balance 7/1/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/05</u>
Loan payable – MEDC				
– 2001	281 113 96	-	4 041 01	277 072 95
Loan payable – MEDC				
– 2005	-	140 000 00	-	140 000 00
Bonds payable – water				
1999 revenue	748 500 00	-	19 500 00	729 000 00
Note payable – Chevrolet				
– 2002	12 159 32	-	5 047 41	7 111 91
Note payable – dump truck	8 702 91	-	5 717 77	2 985 14
Note payable – Chevrolet				
– 2005	-	17 583 00	1 272 90	16 310 10
Accrued compensated absences	<u>17 438 04</u>	<u>-</u>	<u>17 438 04</u>	<u>-</u>
Total	<u>1 067 914 23</u>	<u>157 583 00</u>	<u>53 017 13</u>	<u>1 172 480 10</u>

CITY OF WHITE CLOUD
Newaygo County, Michigan

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 8 – Loan Payable – MEDC – 2001

On June 19, 2001, the City of White Cloud obtained a loan from the Michigan Economic Development Corporation in the amount of \$281,113.96 to partially fund infrastructure improvement in the City's industrial park. During the term of the project, June 1, 2001, to May 31, 2006, the City may earn credits up to 50% of the principal balance, for qualifying net new jobs created and added to the existing job base. Principal and interest payments are to be made quarterly beginning June 1, 2004, through June 1, 2016. The loan bears interest at the rate of 6.0% per annum. As of June 30, 2005, the outstanding principal balance was \$277,072.95.

Note 9 – Loan Payable – MEDC – 2005

On May 9, 2005, the City of White Cloud obtained a loan from the Michigan Economic Development Corporation in the amount of \$160,000.00 to fund the acquisition of real estate. The loan is non-interest bearing. As of June 30, 2005, \$140,000.00 of the loan proceeds had been received and that is the outstanding principal balance. The debt service schedule is as follows:

<u>Due Date</u>	<u>Principal Amount</u>
6/1/06	8 000 00
6/1/07	8 000 00
6/1/08	18 000 00
6/1/09	18 000 00
6/1/10	18 000 00
6/1/11	18 000 00
6/1/12	18 000 00
6/1/13	18 000 00
6/1/14	18 000 00
6/1/15	18 000 00
Total	<u>160 000 00</u>

Note 10 – Water Supply System Revenue Bonds, Series 1999

On September 30, 1999, the City issued \$827,162.00 of its bonds to fund the acquisition, construction and installation of improvements to the City's existing water supply system including but not limited to, water tower replacement and water system transmission extensions and improvements. The bond principal and interest at the rate of 2.5% per annum, are to be repaid from the revenues of the Water Fund. As of June 30, 2005, the outstanding bond principal was \$729,000.00 and it is recorded as a liability in the Water Fund. The debt service schedule is as follows:

<u>Due Date</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Amount</u>
10/1/05	19 500 00	9 112 50	28 612 50
4/1/06	-	8 868 75	8 868 75
10/1/06	19 500 00	8 868 75	28 368 75
4/1/07	-	8 625 00	8 625 00
10/1/07	24 500 00	8 625 00	33 125 00
4/1/08	-	8 318 75	8 318 75
10/1/08	24 500 00	8 318 75	32 818 75

CITY OF WHITE CLOUD
Newaygo County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 10 – Water Supply System Revenue Bonds, Series 1999 (continued)

<u>Due Date</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Amount</u>
4/1/09	-	8 012 50	8 012 50
10/1/09	24 500 00	8 012 50	32 512 50
4/1/10	-	7 706 25	7 706 25
10/1/10	24 500 00	7 706 25	32 206 25
4/1/11	-	7 400 00	7 400 00
10/1/11	24 500 00	7 400 00	31 900 00
4/1/12	-	7 093 75	7 093 75
10/1/12	24 500 00	7 093 75	31 593 75
4/1/13	-	6 787 50	6 787 50
10/1/13	24 500 00	6 787 50	31 287 50
4/1/14	-	6 481 25	6 481 25
10/1/14	24 500 00	6 481 25	30 981 25
4/1/15	-	6 175 00	6 175 00
10/1/15	24 500 00	6 175 00	30 675 00
4/1/16	-	5 868 75	5 868 75
10/1/16	29 500 00	5 868 75	35 368 75
4/1/17	-	5 500 00	5 500 00
10/1/17	30 000 00	5 500 00	35 500 00
4/1/18	-	5 125 00	5 125 00
10/1/18	30 000 00	5 125 00	35 125 00
4/1/19	-	4 750 00	4 750 00
10/1/19	30 000 00	4 750 00	34 750 00
4/1/20	-	4 375 00	4 375 00
10/1/20	30 000 00	4 375 00	34 375 00
4/1/21	-	4 000 00	4 000 00
10/1/21	30 000 00	4 000 00	34 000 00
4/1/22	-	3 625 00	3 625 00
10/1/22	35 000 00	3 625 00	38 625 00
4/1/23	-	3 187 50	3 187 50
10/1/23	35 000 00	3 187 50	38 187 50
4/1/24	-	2 750 00	2 750 00
10/1/24	35 000 00	2 750 00	37 750 00
4/1/25	-	2 312 50	2 312 50
10/1/25	35 000 00	2 312 50	37 312 50
4/1/26	-	1 875 00	1 875 00
10/1/26	35 000 00	1 875 00	36 875 00
4/1/27	-	1 437 50	1 437 50
10/1/27	35 000 00	1 437 50	36 437 50
4/1/28	-	1 000 00	1 000 00
10/1/28	40 000 00	1 000 00	41 000 00
4/1/29	-	500 00	500 00
10/1/29	40 000 00	500 00	40 500 00
Total	<u>\$729 000 00</u>	<u>\$252 662 50</u>	<u>\$981 662 50</u>

CITY OF WHITE CLOUD
Newaygo County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 11 – Equipment Fund Notes Payable

Note Payable – Chevrolet – 2002: On November 25, 2002, the City acquired a Chevrolet Impala for \$20,377.78, through a note payable to GMAC. The agreement requires twelve quarterly payments in the amount of \$1,849.07, which includes principal and interest at the rate of 6.35% per annum. As of June 30, 2005, \$7,111.91 of the principal remained outstanding.

Note Payable – Dump Truck: On December 13, 2000, the City acquired an International Dump Truck for \$26,300.00, through a note payable to Independent Bank West. The agreement requires twenty quarterly payments in the amount of \$1,525.44, which includes principal and interest at the rate of 5.75% per annum. As of June 30, 2005, \$2,985.14 of the principal remained outstanding.

Note Payable – Chevrolet – 2005: On May 12, 2005, the City acquired a Chevrolet Impala for \$17,583.00 through a note payable to GMAC. The agreement requires sixteen quarterly payments in the amount of \$1,272.90, which includes principal and interest at the rate of 8.15% per annum. As of June 30, 2005, \$16,310.10 of the principal remained outstanding.

Note 12 – Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The City has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 13 – Building Permits

The City of White Cloud does not issue building permits. Building permits are issued by the County of Newaygo.

Note 14 – Interfund Transfers

The amounts of interfund transfers were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
Improvement Revolving	71 270 00	General	71 270 00
Local Development	8 300 00	General	8 300 00
Total	<u>79 570 00</u>	Total	<u>79 570 00</u>

CITY OF WHITE CLOUD
Newaygo County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	264 900 00	264 900 00	279 029 37	14 129 37
Licenses and permits	7 750 00	7 750 00	7 401 13	(348 87)
State revenue sharing	183 850 00	183 850 00	169 542 69	(14 307 31)
Federal grants	-	-	6 420 00	6 420 00
Charges for services	16 345 00	18 345 00	15 146 29	(3 198 71)
Fines and forfeits	5 000 00	5 000 00	7 064 33	2 064 33
Interest	5 000 00	5 000 00	8 768 69	3 768 69
Rents	14 000 00	14 000 00	11 025 00	(2 975 00)
Miscellaneous	23 900 00	110 900 00	14 656 74	(96 243 26)
Total revenues	<u>520 745 00</u>	<u>609 745 00</u>	<u>519 054 24</u>	<u>(90 690 76)</u>
Expenditures:				
Legislative:				
City Council and Mayor	12 710 00	12 710 00	12 497 71	(212 29)
General government:				
Elections	2 700 00	3 077 00	2 936 24	(140 76)
Assessor	9 275 00	9 431 00	9 429 87	(1 13)
Building and grounds	56 295 00	52 725 00	48 828 12	(3 896 88)
Manager and Clerk	75 565 00	44 685 00	40 343 69	(4 341 31)
Board of Review	1 000 00	1 000 00	810 00	(190 00)
Treasurer	16 915 00	20 167 00	19 341 16	(825 84)
Public relations	2 100 00	8 558 00	7 949 36	(608 64)
Unallocated	19 625 00	30 295 00	30 142 22	(152 78)
Public safety:				
Police protection	153 610 00	163 656 00	163 122 22	(533 78)
Fire protection	22 000 00	23 431 00	23 430 18	(82)
Zoning	11 040 00	11 040 00	10 733 79	(306 21)
Public works:				
Department of Public Works	101 560 00	105 850 00	105 773 32	(76 68)
Dam	600 00	600 00	121 87	(478 13)
Airport	3 000 00	3 500 00	3 365 00	(135 00)
Recreation and culture:				
Parks and recreation	21 250 00	36 250 00	31 969 35	(4 280 65)
Total expenditures	<u>509 245 00</u>	<u>526 975 00</u>	<u>510 794 10</u>	<u>(16 180 90)</u>
Excess (deficiency) of revenues over expenditures	<u>11 500 00</u>	<u>82 770 00</u>	<u>8 260 14</u>	<u>(74 509 86)</u>
Other financing sources (uses):				
Transfers to other funds	(11 500 00)	(82 770 00)	(79 570 00)	(3 200 00)
Total other financing sources (uses)	<u>(11 500 00)</u>	<u>(82 770 00)</u>	<u>(79 570 00)</u>	<u>(3 200 00)</u>

CITY OF WHITE CLOUD
Newaygo County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	-	-	(71 309 86)	(71 309 86)
Fund balance, July 1	<u>-</u>	<u>-</u>	<u>233 619 01</u>	<u>233 619 01</u>
Fund Balance, June 30	<u>-</u>	<u>-</u>	<u>162 309 15</u>	<u>162 309 15</u>

CITY OF WHITE CLOUD
Newaygo County, Michigan

BUDGETARY COMPARISON SCHEDULE – MAJOR STREET FUND
Year ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
State revenue sharing	87 000 00	87 000 00	85 317 04	(1 682 96)
Interest	500 00	500 00	678 49	178 49
Miscellaneous	1 500 00	31 500 00	2 903 48	(28 596 52)
Total revenues	89 000 00	119 000 00	88 899 01	(30 100 99)
Expenditures:				
Public works:				
Highways and streets	76 540 00	117 540 00	113 726 57	(3 813 43)
Total expenditures	76 540 00	117 540 00	113 726 57	(3 813 43)
Excess (deficiency) of revenues over expenditures	12 460 00	1 460 00	(24 827 56)	(26 287 56)
Fund balance, July 1	-	-	77 492 44	77 492 44
Fund Balance, June 30	12 460 00	1 460 00	52 664 88	51 204 88

CITY OF WHITE CLOUD
Newaygo County, Michigan

BUDGETARY COMPARISON SCHEDULE – LAND ACQUISITION FUND
Year ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Miscellaneous	-	20 000 00	-	(20 000 00)
Total revenues	-	20 000 00	-	(20 000 00)
Expenditures:				
Capital outlay	-	160 000 00	-	(160 000 00)
Total expenditures	-	160 000 00	-	(160 000 00)
Excess (deficiency) of revenues over expenditures	-	(140 000 00)	-	140 000 00
Other financing sources (uses):				
Loan proceeds	-	140 000 00	140 000 00	-
Total other financing sources (uses)	-	140 000 00	140 000 00	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	-	-	140 000 00	140 000 00
Fund balance, July 1	-	-	-	-
Fund Balance, June 30	-	-	140 000 00	140 000 00

CITY OF WHITE CLOUD
Newaygo County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT

Year ended June 30, 2005

City Council and Mayor:	
Salaries and wages	5 250 00
Social security	160 68
Workmen's compensation	100 00
Contracted services	626 42
Printing and publishing	2 475 49
Miscellaneous	1 858 12
Training and memberships	2 027 00
	<u>12 497 71</u>
Elections:	
Salaries and wages	1 591 61
Supplies	80 14
Contracted services	930 00
Printing and publishing	334 49
	<u>2 936 24</u>
Assessor:	
Contracted services	8 400 00
Supplies	905 07
Miscellaneous	124 80
	<u>9 429 87</u>
Building and grounds:	
Wages	9 289 33
Social security	969 76
Hospitalization insurance	742 80
Contracted services	9 522 25
Supplies	4 167 13
Postage	939 50
Communications	11 881 00
Utilities	4 673 13
Repairs and maintenance	1 202 35
Miscellaneous	5 440 87
	<u>48 828 12</u>
Manager and Clerk:	
Salaries and wages	30 557 86
Social security	2 454 78
Hospitalization insurance	2 269 55
Retirement	2 915 33
Life insurance	233 87
Miscellaneous	265 46
Training and membership	1 646 84
	<u>40 343 69</u>
Board of Review:	
Salaries and wages	<u>810 00</u>
Treasurer:	
Salaries and wages	12 859 83
Social security	1 041 95
Hospitalization	763 25
Retirement	1 463 76
Life insurance	67 44
Professional services	2 224 50
Training and memberships	920 43
	<u>19 341 16</u>

CITY OF WHITE CLOUD
Newaygo County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT

Year ended June 30, 2005

Public relations:	
Miscellaneous	<u>7 949 36</u>
Unallocated:	
Audit	2 500 00
Liability insurance	11 500 00
Miscellaneous	6 519 84
City hall expenses	6 622 38
Economic development	<u>3 000 00</u>
	<u>30 142 22</u>
Police protection:	
Salaries and wages	112 383 36
Social security	8 781 60
Hospitalization	5 923 70
Retirement	5 291 80
Life insurance	368 07
Workmen's compensation	1 850 00
Office supplies	2 450 46
Uniform expense	2 189 34
Professional services	4 164 00
Gas and oil	4 749 61
Wrecker fees	2 000 00
Liability insurance	2 550 00
Repairs and maintenance	1 175 00
Miscellaneous	545 28
Training and memberships	1 300 00
Equipment rental	<u>7 400 00</u>
	<u>163 122 22</u>
Fire protection:	
Contracted services	<u>23 430 18</u>
Zoning:	
Salaries and wages	7 484 95
Social security	633 35
Retirement	1 322 01
Miscellaneous	<u>1 293 48</u>
	<u>10 733 79</u>
Department of Public Works:	
Wages	46 109 34
Social security	3 252 99
Health insurance	1 587 56
Hospitalization insurance	4 002 54
Retirement	4 280 62
Life insurance	197 49
Operating supplies	6 167 44
Gas and oil	8 536 75
Uniform expense	900 00
Liability insurance	1 264 00
Utilities	4 077 67
Street lighting	21 591 20
Repairs and maintenance	1 608 49
Miscellaneous	<u>2 197 23</u>
	<u>105 773 32</u>

CITY OF WHITE CLOUD
Newaygo County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended June 30, 2005

Dam:	
Utilities	<u>121 87</u>
Airport:	
Liability insurance	2 865 00
Miscellaneous	<u>500 00</u>
	<u>3 365 00</u>
Parks and recreation:	
Salaries and wages	3 914 68
Social security	292 81
Contracted services	1 965 00
Repairs and maintenance	17 871 19
Utilities	3 666 40
Operating supplies	3 404 28
Miscellaneous	254 99
Liability insurance	<u>600 00</u>
	<u>31 969 35</u>
Total Expenditures	<u><u>510 794 10</u></u>

CITY OF WHITE CLOUD
Newaygo County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS
June 30, 2005

	<u>Major Street</u>	<u>Local Street</u>	<u>Cemetery</u>	<u>Park</u>	<u>Improvement Revolving</u>
<u>Assets</u>					
Cash in bank	43 554 28	28 149 51	18 701 81	2 091 68	9 56
Due from State of Michigan	<u>13 633 23</u>	<u>5 587 44</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>57 187 51</u>	<u>33 736 95</u>	<u>18 701 81</u>	<u>2 091 68</u>	<u>9 56</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accrued compensated absences	<u>4 522 63</u>	<u>2 261 32</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>4 522 63</u>	<u>2 261 32</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:					
Unreserved:					
Undesignated	<u>52 664 88</u>	<u>31 475 63</u>	<u>18 701 81</u>	<u>2 091 68</u>	<u>9 56</u>
Total fund balances	<u>52 664 88</u>	<u>31 475 63</u>	<u>18 701 81</u>	<u>2 091 68</u>	<u>9 56</u>
Total Liabilities and Fund Balances	<u>57 187 51</u>	<u>33 736 95</u>	<u>18 701 81</u>	<u>2 091 68</u>	<u>9 56</u>

<u>Land Acquisition</u>	<u>Local Development</u>	<u>Total</u>
140 000 00	38 51	232 545 35
<u>-</u>	<u>-</u>	<u>19 220 67</u>
<u>140 000 00</u>	<u>38 51</u>	<u>251 766 02</u>
<u>-</u>	<u>-</u>	<u>6 783 95</u>
<u>-</u>	<u>-</u>	<u>6 783 95</u>
<u>140 000 00</u>	<u>38 51</u>	<u>244 982 07</u>
<u>140 000 00</u>	<u>38 51</u>	<u>244 982 07</u>
<u>140 000 00</u>	<u>38 51</u>	<u>251 766 02</u>

CITY OF WHITE CLOUD
Newaygo County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – ALL SPECIAL REVENUE FUNDS
Year ended June 30, 2005

	<u>Major Street</u>	<u>Local Street</u>	<u>Cemetery</u>	<u>Park</u>	<u>Improvement Revolving</u>
Revenues:					
State revenue sharing	85 317 04	34 536 61	-	-	-
Charges for services	-	-	10 710 00	3 133 88	-
Interest	678 49	465 93	305 83	34 98	-
Special assessments	-	5 936 00	-	-	-
Miscellaneous	<u>2 903 48</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>88 899 01</u>	<u>40 938 54</u>	<u>11 015 83</u>	<u>3 168 86</u>	<u>-</u>
Expenditures:					
General government:					
Cemetery	-	-	8 083 04	-	-
Public works:					
Construction	49 995 33	-	-	-	71 260 44
Routine maintenance	48 361 27	35 871 28	-	-	-
Traffic services	312 07	-	-	-	-
Winter maintenance	11 347 90	6 529 17	-	-	-
Truckline maintenance	1 000 00	-	-	-	-
Administration	2 710 00	1 200 00	-	-	-
Recreation and culture:					
Parks and recreation	-	-	-	3 500 00	-
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>113 726 57</u>	<u>43 600 45</u>	<u>8 083 04</u>	<u>3 500 00</u>	<u>71 260 44</u>
Excess (deficiency) of revenues over expenditures	<u>(24 827 56)</u>	<u>(2 661 91)</u>	<u>2 932 79</u>	<u>(331 14)</u>	<u>(71 260 44)</u>
Other financing sources (uses):					
Transfers from other funds	-	-	-	-	71 270 00
Loan proceeds	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>71 270 00</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(24 827 56)</u>	<u>(2 661 91)</u>	<u>2 932 79</u>	<u>(331 14)</u>	<u>9 56</u>
Fund balances, July 1	<u>77 492 44</u>	<u>34 137 54</u>	<u>15 769 02</u>	<u>2 422 82</u>	<u>-</u>
Fund Balances, June 30	<u><u>52 664 88</u></u>	<u><u>31 475 63</u></u>	<u><u>18 701 81</u></u>	<u><u>2 091 68</u></u>	<u><u>9 56</u></u>

<u>Land Acquisition</u>	<u>Local Development</u>	<u>Total</u>
-	-	119 853 65
-	-	13 843 88
-	-	1 485 23
-	-	5 936 00
-	-	2 903 48
-	-	144 022 24
-	-	8 083 04
-	-	121 255 77
-	-	84 232 55
-	-	312 07
-	-	17 877 07
-	-	1 000 00
-	-	3 910 00
-	-	3 500 00
-	8 261 49	8 261 49
-	8 261 49	248 431 99
-	(8 261 49)	(104 409 75)
-	8 300 00	79 570 00
140 000 00	-	140 000 00
140 000 00	8 300 00	219 570 00
140 000 00	38 51	115 160 25
-	-	129 821 82
140 000 00	38 51	244 982 07

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100
P.O. BOX 686
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
FAX (989) 894-5494

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

October 7, 2005

To the City Council
City of White Cloud
Newaygo County, Michigan

We have audited the financial statements of the City of White Cloud, Newaygo County, Michigan, as of and for the year ended June 30, 2005, and have issued our report thereon dated October 7, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City of White Cloud's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control over Financial Reporting

In planning and performing our audit, we considered City of White Cloud's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our study and evaluation disclosed the following condition that we believe to be a material weakness for which management believes corrective action is not practicable in the circumstances. Within the present plan of organization of the City there is an inadequate control over cash transactions caused by an inadequate segregation of duties which is due to the limited number of office personnel employed. Such study and evaluation disclosed no conditions that we believe to be material weaknesses for which corrective action by management is practicable in the circumstances.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100
P.O. BOX 686
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
FAX (989) 894-5494

AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

October 7, 2005

To the City Council
City of White Cloud
Newaygo County, Michigan

We have audited the financial statements of the City of White Cloud for the year ended June 30, 2005. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the City of White Cloud in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the City Council
City of White Cloud
Newaygo County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the City's financial statements and this communication of these matters does not affect our report on the City's financial statements, dated June 30, 2005.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants